

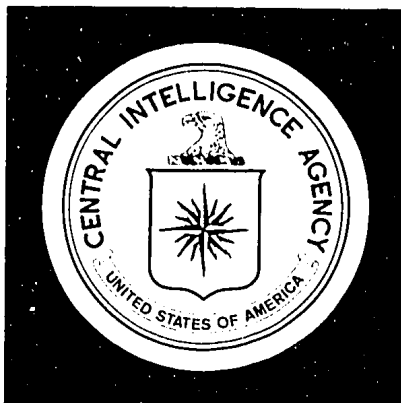
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Japan's Southeast Asian Dilemma

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№ 655

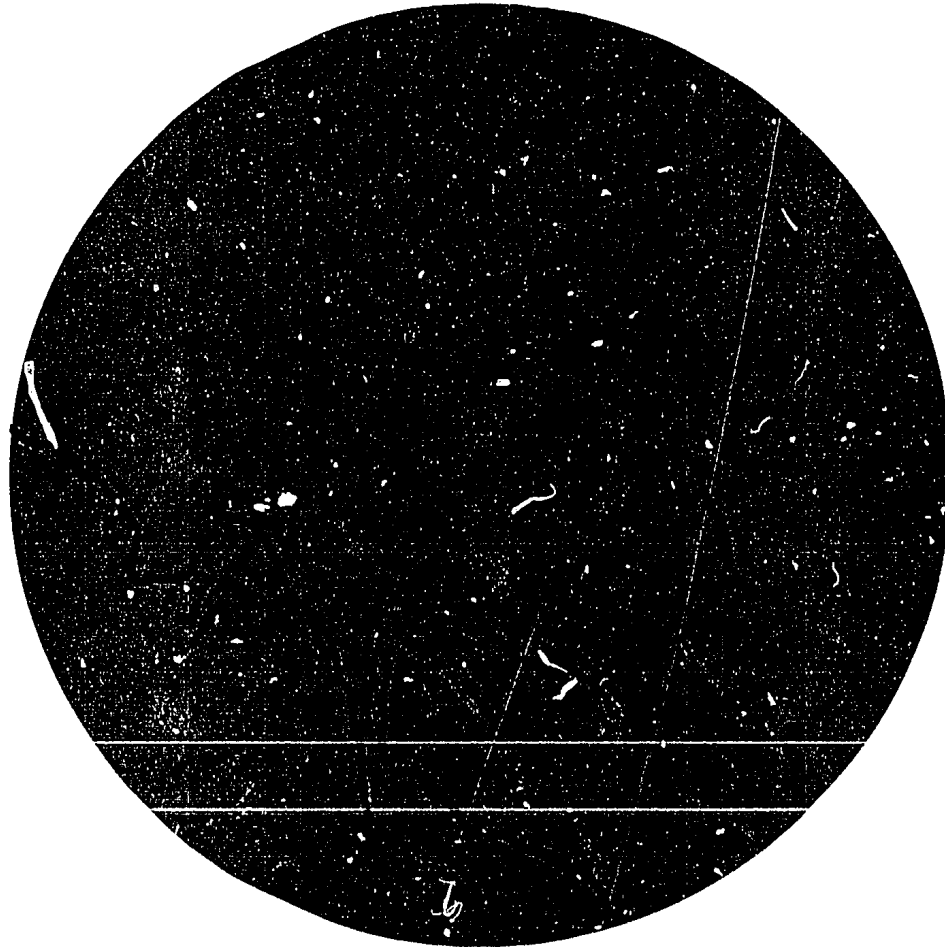
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JAPAN



ITS SOUTHEAST ASIAN DILEMMA

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The economic colossus in Asia is emerging from its political isolation to find a "damned if you do and damned if you don't" situation. Japan is under some domestic and considerable external pressure to "live up to its responsibilities" and exert a greater role in the region, but Japan's enormous economic impact throughout Southeast Asia has rekindled old resentments and stimulated new ones. Many applaud Japan's recent political initiatives; others are suspicious about what the Japanese are up to. Tokyo is on a tightrope; it is hypersensitive to regional criticisms of the "ugly Japanese," yet aware that the changing balance of power in Asia requires that Japan make some changes too.

There is no real consensus yet in Japan on the nation's proper role in Southeast Asia. Japan has thus far been well served by its policy—or non-policy—of maintaining as low a political posture as possible, but there is an increasing realization that Japan's rapidly growing economic role lacks any over-all policy framework. Into the new equation Tokyo must fit the declining US presence, China's changing international position, and postwar Indochina.

The World War II Legacy

"Asia for the Asiatics" was an effective concept for the Japanese in the years immediately preceding World War II. The plan for a greater East Asia Co-prosperity Sphere seemed not without logic to a number of Southeast Asians. In economic terms it suggested that Japan would serve as the industrial and managerial nucleus, while Southeast Asia would supply raw materials and markets for Japan. After all, the Japanese were providing the kinds of products Southeast Asians wanted, while greatly undercutting the

European competition on prices. Furthermore, the Japanese, unlike the Europeans, Chinese, and Indians, employed indigenous people in their businesses, providing one of the few avenues of commercial training for such individuals. Japanese atrocities in China in the 1930s did little to harm Japan's image in Southeast Asia, in view of widespread popular dislike of local Chinese.

When the Japanese "liberators" arrived in the area, admiration and cooperation dissipated quickly in the face of Japanese brutality and incessant reminders from them of their innate superiority. In some areas, the bitterness left by the brief period of Japanese military rule far exceeded anything felt by the Southeast Asians against the Western colonial powers and inhibited Japan's political role in Southeast Asia in the postwar period.

Japanese contact with Southeast Asia was virtually nil in the first decade after the war, except through the mechanism of war reparations. The reparations negotiations were indicative of Japan's postwar approach to Southeast Asia and left considerable distaste on both sides. As in other economic transactions, the Japanese bargained intensely and, to Southeast Asians, showed an insufficient sense of guilt. For their part, the Japanese resented the obvious determination of the recipient countries to milk Japan for as much as possible.

During the 1950s Japanese involvement in Southeast Asia was economic, albeit limited. The Japanese, recognizing the resentment and suspicion of them in Southeast Asia, entertained no illusions concerning a possible political role in the area and carefully avoided any involvement which had a political or military connotation. In the

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"We're going to have to rely on Japan for some time to come." Thanat Khoman, former Thai foreign minister—December 1972

1960s, however, Japanese economic involvement expanded at a very rapid rate, and so did the numbers of Japanese businessmen.

Assisting Their Neighbors

At least through the first half of the 1960s, Tokyo displayed little interest in foreign aid to Southeast Asian countries, in part because of foreign exchange problems. What assistance was given was in part in response to US prodding and had strings attached aimed at furthering Japan's immediate economic interest. As reparations gradually phased out, these payments were replaced by hard-term loans. These loans were virtually always tied to purchases of Japanese goods and services. One Japanese newspaper, in noting that the average rate of interest on official Japanese loans to developing countries last year stood at 3.6 percent a year, against an OECD average of 2.7 percent commented that it was small wonder that developing countries viewed Japanese aid as "economic aggression."

Tokyo has, of course, been very much aware of dissatisfaction over its aid policy, but corrective measures have been slow in coming. In response to foreign criticism, Tokyo has claimed, somewhat lamely, that insufficient capital for social overhead at home prevented much improvement in the terms and amount of aid. There was an element of political truth in this assertion. As in many countries, there has been little public support in Japan for foreign aid, especially since most Japanese have felt that their standard of living lagged far behind that of many industrial countries and therefore balked at giving away large amounts of money.

Compounding the difficulty in generating more meaningful aid programs has been the opposition of the powerful Finance Ministry, which has been resisting pressures to loosen up on the purse strings as Japan's balance-of-payments surpluses soared. Japanese prime ministers have not been able to impose their will on the Finance Ministry, nor have they tried very hard in the absence of a popular consensus on foreign aid. There has been some indication that very recently the Ministry of Finance has reached a position, at least in principle, of freeing recipients of Japanese loans from the need to spend all the money on Japanese goods and services. There is still resistance to liberalizing aid policy within the Ministry of International Trade and Industry, which naturally views aid as a useful device for stimulating Japanese exports. The Foreign Ministry, which lacks a domestic constituency, has been the only major ministry to favor liberal aid and trade policies.

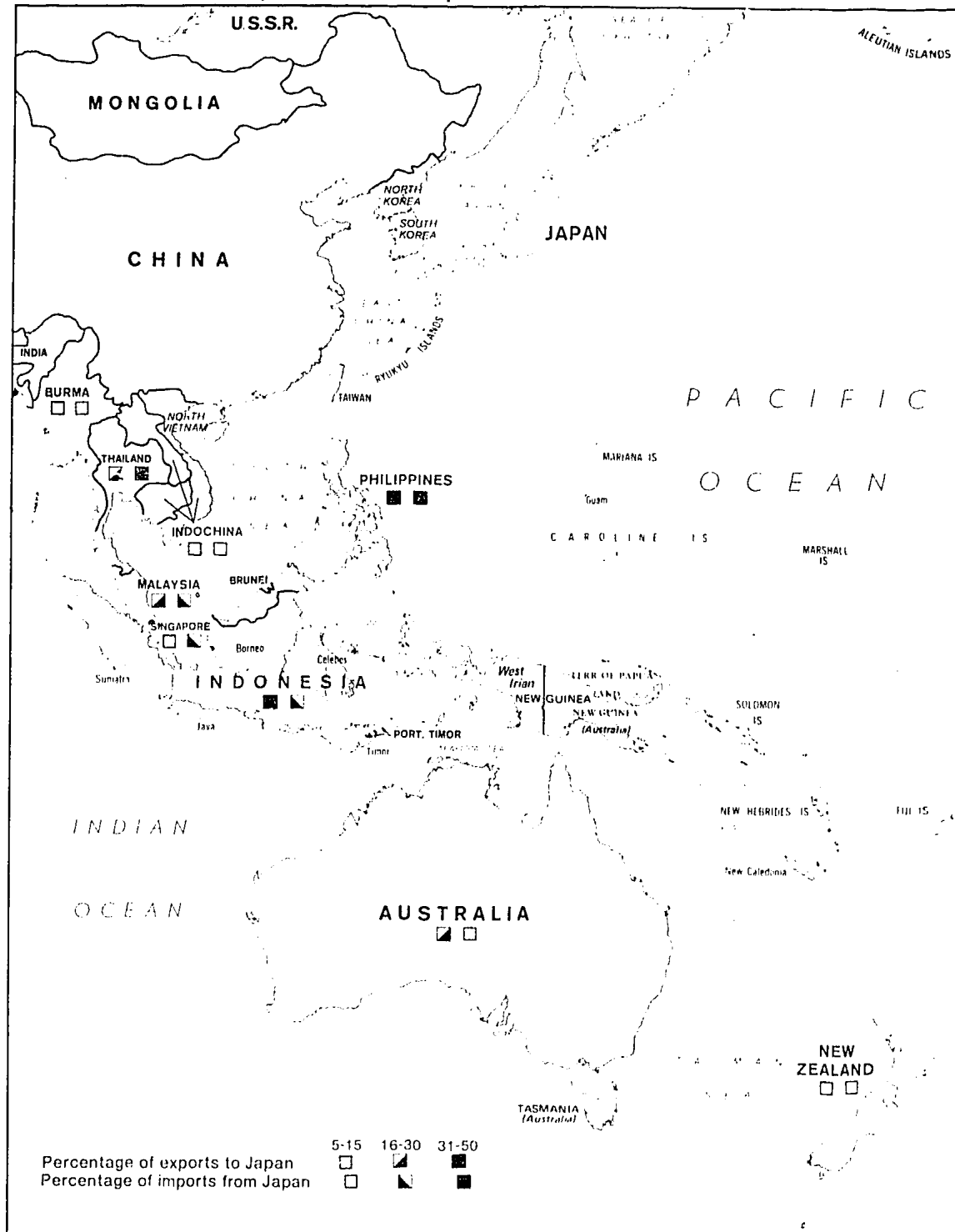
It was Foreign Minister Ohira who told the Seventh Ministerial Conference on Economic Development of Southeast Asia in Saigon late last year that he would support an international agreement among donor countries aimed at untying aid. Ohira further announced that the Japanese Government had decided to allow the developing countries receiving Japanese loans to spend some of the money at home. He conceded that specific measures for implementing this decision have yet to be prepared.

Some Obvious Benefits

The Japanese feel they have approached their postwar relations with Southeast Asia in a relatively low key. Tokyo believes, justifiably, that the region benefits from the impact of

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Southeast Asia's Dependence on Japanese Trade



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Japanese economic activity. The region has been the principal beneficiary of Japan's limited aid programs. Japan has been a market as well as a source of capital and technology and thus has played an even greater role in boosting the economic development of the entire region. To maintain its strong competitive edge in world markets Japan has established export-oriented industries in lower wage countries in Asia—for example electronics and motorcycle manufacture in Thailand. Typically, the Japanese take a minority interest in a firm, provide it with management skills, technology, and loans to buy capital equipment and industrial materials from Japan, and market its output in third countries like the United States. In the case of resource-rich countries like Indonesia and Australia, Japan has provided a huge market for raw materials.

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Japan will continue to place greater emphasis on this sort of overseas operation. Rapidly rising domestic wages and pressure for revaluation of the yen are hastening this trend. As Japan continues to stress more sophisticated products, the Southeast Asian countries will move up on the industrial scale. Since Tokyo will continue to protect its domestic producers from low-cost competition, Japanese enterprises in Southeast Asia will continue to be oriented toward sales to third countries, especially the US.

The Anti-Japanese Syndrome

Most Japanese have been aware that a rapid increase in the Japanese presence in Southeast Asia, even if restricted to the economic sphere, could exacerbate lingering resentments and suspicions. However well the Japanese may think they have succeeded in maintaining a low profile, from the Southeast Asian point of view, Japan has been all too visible. The rapidly growing dependence of many Southeast Asian countries on Japan as a source of imports and as a market for exports (mainly raw materials) has fostered an even more rapid growth in anxiety about potential Japanese domination of the local economies.

The tendency of many Southeast Asians to focus on the problems rather than the benefits of their relation with Japan has led to complaints of

Japanese clannishness, inability to speak the local language, stinginess, and proclivity for the quick profit. Without a doubt, the average Japanese harbors a clear feeling of superiority and this hinders their ability to relate to the Southeast Asians. Southeast Asians feel that European and American businessmen are often much more aware of local sensitivities than Japanese businessmen. In a sense, until relatively recently, the Japanese were a race apart with language, customs, and values quite distinct from those of other Asians.

Too Much, Too Soon

The imbalance in Japan's relations with Southeast Asian countries is already having political consequences. The recent anti-Japanese campaign launched by the major Thai student organization is a good example. The students, amid much fanfare, organized a ten-day boycott of Japanese goods in November 1972. Although the boycott ostensibly had no official backing, Thai authorities made little effort to control it. The students presented the National Economic Council with a petition calling for increased control of foreign employees, investment and investors, department stores, imports, shipping lines, and TV films (especially Japanese). The petitioners

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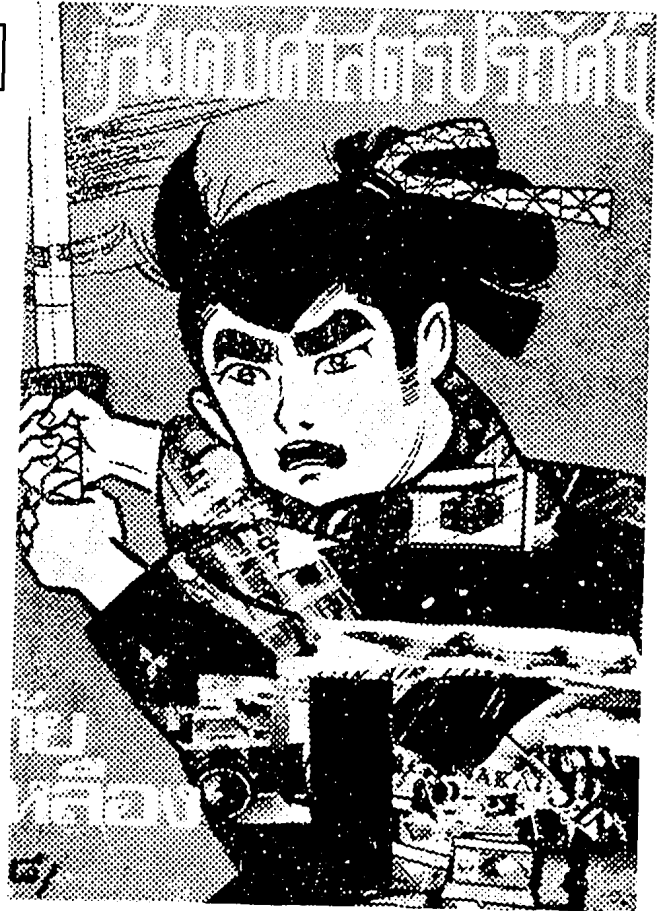
25X6 wanted stricter control over Thai Government officials dealing with foreigners [redacted]

[redacted] The petitioners also asked that government agencies be forced to use Thai products whenever possible.

The worry that Thailand is becoming an economic satellite of Japan is not simply a resurrection of old World War II prejudices. Japan is by far the largest foreign investor in Thailand, with total investments exceeding those of the US and Taiwan, the second and third ranking countries, put together. Three quarters of all completely foreign-owned businesses in Thailand are owned by Japanese; only one in ten is US-owned. Japan's rapidly growing economic role in Thailand has brought large numbers of Japanese businessmen and their families into Bangkok—the present total reportedly is more than 6,000.

Japanese diplomatic and business officials in Thailand responded to the boycott in a low-key, well-reasoned way, stressing the benefits of foreign investment and offering to buy more Thai goods. The Japanese made it clear, however, that they resented Japan being singled out and suggested a positive "buy Thai" campaign would have been better than the negative "boycott Japan" approach. Japanese companies, as a precaution, reduced or suspended their advertising in local papers. Japanese business leaders in Bangkok devised a set of standards for doing business in Thailand. Drawn up by the Japan-Thailand Economic Cooperation Committee, the standards call for a less permanent billboard advertising campaign, more efforts to promote products made by Japan-Thailand joint venture firms, less Japanese visibility in joint venture firms, increased local procurement of raw materials, and a greater role for Thai employees. Tokyo also decided to untie a previous loan for \$208 million which has required procurement in Japan.

Pote Sarasin, deputy chairman of Thailand's State Council, complained after the boycott that it was caused by the way the Japanese did business in Thailand, rather than by the large trade



Thai Poster Attacking the Japanese "Menace"

imbalance in Japan's favor. The Thai leader warned that other Southeast Asian countries may follow the example of the Thai students if the Japanese do not alter their approach.

Other Thai leaders share Sarasin's dislike of Japanese trade policies. Thanat Khoman, former Thai foreign minister, has said "Japanese policy in Southeast Asia is mercantilist. They want to sell manufactured products and get raw materials." Khoman acknowledged, however, that Southeast Asians will have to rely on the Japanese for some time to come. "Most American firms," he claimed, "are not really interested in Southeast Asia and their products are too expensive and the Europeans are too engrossed in their problems."

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Elsewhere in Southeast Asia

Japan's economic impact in other Southeast Asian countries is also increasing rapidly. This is very apparent in Indonesia and Australia. Both are sources of raw materials for Japan's industrial machine, and both enjoy a very high favorable balance of trade vis-a-vis Japan. Both are highly dependent on the Japanese market.

Indonesia, for example, sends over half of its total exports and nearly 80 percent of its oil exports to Japan. The rapid growth in economic relations between the two countries has been an important factor in the stabilization of the Indonesian economy in recent years. On the other hand, many prominent Indonesians are already expressing concern that their country is becoming an economic satellite and that Japanese business interests could come to exert undue political influence.

In the case of Australia, the complementary nature of the two economies led to a bilateral trade amounting to about \$2.5 billion last year. Japan imports huge amounts of minerals from Australia—50 percent of the country's total mineral exports, and 90 percent of its iron ore exports. As in Indonesia, there is growing recognition in Australia that Japanese domination of the export market has its drawbacks. Canberra is unhappy over its role as a mere supplier of raw materials to Japan, and there is resentment of "mighty Japan" leaning heavily on "little Australia." Without much success, Australia has pressed

25X6 Tokyo to allow greater imports of Australian manufactured and agricultural products.

The importance of Japan to the other Southeast Asian nations is no less great, but they do not

in turn figure prominently in Japan's economic and political picture. Trade with the Philippines, Singapore, Malaysia, and New Zealand is growing steadily, and trade with Indochina is increasing slowly after a considerable drop-off from the peak in 1969. Trade with Burma has not grown much as the Burmese economy has deteriorated. In all of these countries, Japan maintains a low diplomatic profile.

Japan's Ambivalent Asian Role

Despite Japan's enormous economic importance in Southeast Asia, there are a number of political and psychological limitations, like the lingering Asian animosities that restrict Tokyo's ability to play a more active regional role. Japan's basic interest in maintaining the status quo and assuring a favorable environment in which to pursue its commercial objectives has led to a foreign policy in Southeast Asia of staying out of political problems.

But the world balance of power that has facilitated Japan's non-involvement is changing, and for several years the Japanese have anticipated that they may soon be called upon to play a more positive role in the Southeast Asian region. The first tentative effort came in 1966 when Japan joined the Asian and Pacific Council, although the Japanese role has always been circumscribed, largely because of domestic unhappiness over the anti-Communist tinge of the organization.

The conflict in Indochina drew the Japanese further out of their shell, in part because of US pressures for diplomatic support. Tokyo played an active role in the 1970 Djakarta Conference on Cambodia, an important step from the Japanese point of view, although perhaps over-emphasized in the world press as representing the emergence of Japan in a vigorous Asian role. During 1970, Tokyo quietly began to shift from purely "humanitarian" assistance to economic development in their aid program to South Vietnam.

Another factor drawing the Japanese out has been the emerging doubt over the US role in Southeast Asia after Vietnam. The enunciation of

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the Nixon doctrine was widely interpreted in Japan as signaling an American "withdrawal" from the region, and President Nixon's visit to China in early 1972, perhaps more than any other single event, impressed upon the Japanese that old alignments were changing. To Tokyo, the growing atmosphere of detente meant not only US withdrawal from the region, but new significance for the views and interests of Peking in Southeast Asia. One of the most immediate manifestations of this was the Japanese desire to see the Asian and Pacific Council "lapse into a coma." Recognizing that Peking looked with disfavor upon the organization because of Taiwan's membership and the group's general anti-Communist flavor, Tokyo favors keeping the group inactive without taking any immediate formal action to disband it.

Tokyo's longer range thinking seems to lean toward creation of a new Asian organization which would include China and Australia, key countries from the Japanese point of view. The involvement of China is of particular importance to the Japanese, as Foreign Minister Ohira recently underlined at a luncheon with foreign correspondents in Tokyo. Japan's desire to bring China into the mainstream of Asian affairs

reflects the long-held belief that Japan is in an excellent position to play the role of bridge-builder in East Asia. President Nixon's initiatives on China, which left Japan holding the bag, undercut this long-held view to some extent, but Tokyo still sees itself building political bridges in Indochina.

The Vietnam Peace

Although the Japanese have felt considerable abhorrence of the war in Vietnam, most of them believe that their country can and should be involved in efforts to bring stability to Indochina. At a recent press conference Prime Minister Tanaka stated flatly that no settlement of the problem would be feasible without Japan's participation. Tanaka proposed a meeting of Asian leaders to work out plans for a postwar "peace and reconstruction conference." Although Foreign Ministry officials confided afterward that Tanaka did not have any specific proposals in mind and that his suggestions were largely political rhetoric, there certainly is domestic political pressure for Japan to take part in postwar political arrangements if it is to be a major contributor to reconstruction efforts. For this reason, Tokyo is somewhat irked that it was not invited to the international conference on Indochina, which will include most of the major world powers.

At a press conference on 17 January, Foreign Minister Ohira, in discussing aid to Indochina after the cease-fire, distinguished between emergency relief aid and economic development assistance. He said the Japanese Government had taken the necessary budgetary steps and was prepared to give "swift and effective" relief assistance to Indochina—South Vietnam, North Vietnam, Cambodia, and Laos—soon after the cease-fire, without necessarily waiting for the formation of a multilateral aid structure. The foreign minister indicated that his government was still deliberating on the form and amount of long-term economic assistance to be provided through a multinational consortium.

For long-term aid, the Japanese would prefer a consortium, or something like the Asian Development Bank, to avoid the political complications

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that might arise through direct involvement. Although there have been numerous reports in the press in recent months that Japan proposed a \$2-billion reconstruction fund, the initial Japanese contribution will probably be in the neighborhood of several hundred million dollars. Before deciding how to dispense its money, Tokyo will want to examine carefully the peace arrangements. Japanese businessmen foresee large contracts for steel, machinery, electrical generating equipment, concrete, and construction projects to start with. In fact, trading in stocks of Japanese construction companies that might benefit from peace in Indochina has lately been brisk.

Tokyo will probably move slowly in developing political relations with North Vietnam. There are the problems remaining from World War II, and the Japanese will be reluctant to do anything which would further freeze the division of Vietnam.

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Coping With The Imbalance

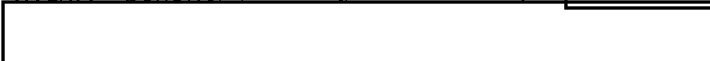
Japan's world role is growing, and as part of that growth, Tokyo will begin to play a larger part not only in Indochina, but in Asian affairs in general. As Japan's economic stake in the Southeast Asian nations grows, so will Japan's interest in local political affairs. On the other hand, the Japanese will be wary of entanglements which could jeopardize economic gains and revitalize anti-Japanese feelings. Southeast Asian anxiety

that the region is about to be drawn into a new Japanese "co-prosperity sphere," reminiscent of the 1930s, is probably exaggerated. There will be several important factors that will work against a revival of the "co-prosperity" motif:

- A strong USSR and reassertive China will have their own interests in the area.
- Tokyo will continue to base its foreign policy on encouraging a major US influence in the area.
- The strong sense of nationalism in Southeast Asian countries will reduce the ability of major powers to develop a dominant position, as the Thai example points out.

Tokyo will avoid the use of military power to enhance its influence in the region and will stress multi-national solutions to regional problems. The Japanese will also increase their aid substantially, with a gradual trend toward "aid without strings" through multilateral organizations.

The next few years will probably produce an intensification of the situation in which Japan looms extremely large in importance in Southeast Asia's calculations, while Southeast Asia in relative terms does not figure as importantly in Japan's picture. In view of this imbalance, Tokyo clearly will have to exert considerable effort to prevent latent antagonisms and charges of economic domination from excessively coloring highly beneficial mutual relationships.



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